

UNIVERSITY OF VIRGINIA

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2007**

APA

**Auditor of
Public Accounts**

COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our audit of the University of Virginia for the year ended June 30, 2007, found:

- the financial statements are presented fairly, in all material respects;
- internal control matters that we do not consider to be material weaknesses; and
- instances of noncompliance or other matters required to be reported.

We have audited the basic financial statements of the University as of June 30, 2007 and for the year then ended and issued our report thereon, dated October 12, 2007. Our report is included in the President's Report 2006-07 issued by the University that it anticipates releasing on or around December 21, 2007.

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INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

Close Out Capital Projects Promptly

The University's Facilities Planning and Construction Division does not promptly close out capital projects after their completion, and several projects date back as far as 1999. The Higher Education Capital Outlay Manual requires the Project Manager to complete a Higher Education Capital Outlay Form 14 to officially close out a project promptly after submitting the Certificate of Completion.

Closing out projects promptly after their completion reduces the following unnecessary risks to the University:

- The potential of not properly capitalizing project expenses and misstating the financial statements.
- Accidentally recording current project expenses in a completed, but still open project account.

Project Managers should promptly close out projects and complete the proper forms when they accept the project. While we recognize that occasionally there may be a reason to delay project close out, we recommend that the University follow best practices and close out projects within twelve months after substantial completion. Further delays should require Project Managers to justify the delay formally and receive senior management approval.

Properly Complete Employment Eligibility Verification Forms

University employees and supervisors are not properly completing Employment Eligibility Verification forms (I-9) in accordance with guidance issued by the US Citizenship and Immigration Services of the US Department of Homeland Security. The guidance requires the employee to complete, sign, and date the form on the first day of employment. Additionally, the employer or designated representative must complete, sign, and date the form within three business days of employment.

In our sample of 18 of these forms completed in fiscal year 2007, we found one or more errors on 15 of the forms as follows:

- 53% failed to list the first day of employment in Section 2
- 47% failed to provide sufficient information from the verification documents, such as document number, expiration date, or issuing authority
- 27% failed to have the employee sign and/or date the form on the first day of employment
- 20% failed to complete the alien authorization section
- 20% were not verified by the employer within 3 business days of the employment start date
- 13% were completed after the employment start date listed on the I-9
- 13% verified more than the minimum amount of documentation
- 6% failed to completely fill in the employer's information.

We recommend that the Human Resources Division review the process to complete the I-9 forms, train human resources staff on the requirements of completing these forms, and develop procedures to continuously review all or a sample of forms for compliance with federal regulations. The federal government has increased its enforcement efforts requiring employers to ensure that all new employees are legally entitled to work in the United States. This increased enforcement makes having a good process to complete I-9 forms in place more important than ever before. Furthermore, we recommend that the University be cautious in the amount of documents it requests from each employee because employers requesting more than the minimum amount of documentation from employees could be subject to fines and penalties, as the US Department of Homeland Security considers it a form of harassment.

Return Title IV Funds Timely

The University's Student Financial Services Division performed the calculation for Title IV refunds accurately, but did not return federal funds to the federal Department of Education in a timely manner. Federal regulations require colleges to return unearned Title IV funds as soon as possible to the federal Department of Education, but no later than 45 days after the college determined the student withdrew.

During our review of twenty students, we found Student Financial Services had returned funds for three students 76 to 95 days after the student's withdrawal from classes. We also noted Student Financial Services had not performed the Title IV calculation for three students within 45 days of the student's withdrawal; however, there were no funds requiring return.

We recommend that the University enhance existing internal controls in the Student Information System to ensure that Student Financial Services properly identifies all students who officially withdraw and return all Title IV funds to the Department of Education within the specified guidelines.



Commonwealth of Virginia

Walter J. Kucharski, Auditor

**Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218**

October 12, 2007

The Honorable Timothy M. Kaine
Governor of Virginia

The Honorable Thomas K. Norment, Jr.
Chairman, Joint Legislative Audit
and Review Commission

Board of Visitors
University of Virginia

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS

We have audited the financial statements of the business-type activities and aggregate discretely presented component units of the **University of Virginia** as of and for the year ended June 30, 2007, which collectively comprise the University's basic financial statements, and have issued our report thereon dated October 12, 2007. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. We did not consider internal controls over financial reporting or test compliance with certain provisions of laws, regulations, contracts, and grant agreements for the financial statements of the component units of the University, which were audited by other auditors in accordance with auditing standards generally accepted in the United States of America, but not in accordance with Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we

identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies entitled "Close Out Capital Projects Promptly," "Properly Complete Employment Eligibility Verification Forms," and "Return Title IV Funds Timely," which are described in the section titled "Internal Control and Compliance Findings and Recommendations", to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. Instances of noncompliance and other matters, entitled "Properly Complete Employment Eligibility Verification Forms" and "Return Title IV Funds Timely" are described in the section titled "Internal Control and Compliance Findings and Recommendations."

The University's response to the findings identified in our audit is included in the section titled "University Response." We did not audit the University's response and, accordingly, we express no opinion on it.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the University of Virginia. The accompanying Student Loan Fund Schedule is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Status of Prior Findings

The University has taken adequate corrective action with respect to the audit finding reported in the prior year.

Report Distribution and Exit Conference

The “Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters” is intended solely for the information and use of the Governor and General Assembly of Virginia, the Board of Visitors, and management, and is not intended to be and should not be used by anyone, other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

We discussed this report with management at an exit conference held on October 12, 2007.

AUDITOR OF PUBLIC ACCOUNTS

SUPPLEMENTARY INFORMATION

STUDENT LOAN FUND SCHEDULE

In the past, the University has used its Commonwealth of Virginia Student Loan Fund to provide matching funds to meet the institutional contribution requirements of the federally sponsored Perkins Loan Program. At June 30, 2007, the fund balance of the State Student Loan Fund consisted of the following:

Cash	\$ 8,128
Due from Perkins Loan Program	<u>82,306</u>
Fund balance	<u>\$90,434</u>

The University transferred no funds from the State Student Loan Fund to the Perkins Loan Program during the fiscal year.



UNIVERSITY of VIRGINIA

VICE PRESIDENT AND CHIEF FINANCIAL OFFICER

December 18, 2007

Mr. Walt Kucharski
Auditor of Public Accounts
P.O. Box 1295
James Monroe Building
Richmond, Virginia 23218

Dear Mr. Kucharski:

The University of Virginia has reviewed the internal control findings and recommendations provided by the Auditor of Public Accounts (APA) for the fiscal year ended June 30, 2007. The University agrees with your office's findings and has already taken action to eliminate these issues. We have listed each APA finding below followed by the University's detailed corrective action plans.

(1) APA Finding: Close Out Capital Projects Promptly

The University's Facilities Planning and Construction Division does not promptly close out capital projects after their completion, and several projects date back as far as 1999. The Higher Education Capital Outlay Manual requires the Project Manager to complete a Higher Education Capital Outlay Form 14 to officially close out a project promptly after submitting the Certificate of Completion.

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- The potential of not properly capitalizing project expenses and misstating the financial statements.
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University of Virginia Management Response:

- Facilities Management agrees project closing should begin at the expiration of the warranty period, which occurs normally one year after occupancy. Corrective action has already been implemented.
- We have placed a priority on identifying and closing all projects where occupancy occurred more than one year ago. Of the projects originally identified by the APA, all but two have subsequently been closed. Of these two, one project is in litigation and cannot be closed at this time. The goal is to have these remaining projects closed by April

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2008.

- We have put into place a new internal control process, where we have created a report listing all open projects, the assigned project manager and the associated date of occupancy. Any project with an occupancy date of one year or more requires closing action by the project manager. Monthly meetings, chaired by the Director of Facilities Planning and Construction, have been implemented to review closing actions with the Academic and Health Sciences Division Directors, the two capital project execution Divisions. This monthly review control will continue in perpetuity even after the backlog is eliminated. The management reports will continue to be published for project managers and management usage.

(2) APA Finding: Properly Complete Employment Eligibility Verification Forms

University employees and supervisors are not properly completing Employment Eligibility Verification forms (I-9) in accordance with guidance issued by the US Citizenship and Immigration Services of the US Department of Homeland Security. The guidance requires the employee to complete, sign and date the form on the first day of employment. Additionally, the employer or designated representative must complete, sign and date the form within three business days of employment.

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- 13% verified more than the minimum amount of documentation
- 6% failed to completely fill in the employer's information

We recommend that the Human Resources Division review the process to complete the I-9 forms, train human resources staff on the requirements of completing these forms, and develop procedures to continuously review all or a sample of forms for compliance with federal regulations. The federal government has increased its enforcement efforts requiring employers to ensure that all new employees are legally entitled to work in the United States. This increased enforcement makes having a good process to complete I-9 forms in place more important than ever before. Furthermore, we recommend that the University be cautious in the amount of documents it requests from each employee because employers requesting more than the minimum amount of documentation from employees could be subject to fines and penalties, as the US Department of Homeland Security considers it a form of harassment.

University of Virginia Management Response:

Management concurs with the findings. Until August, 2007, management oversight for the I-9 process was under the control of the Records Division of Human Resources. At that time Human Resources created the Office of Compliance and Immigration Services (CIS), transferring management responsibility for I-9s from the Records Division to CIS. Since August, CIS has followed up on the audit findings. Corrective action has already begun as outlined below.

I. Internal Audits

CIS began regular monthly internal audits at the end of September, reviewing every I-9 submitted during the months of August and September. Forms that were found to be non-compliant were returned to the appropriate department where new forms were requested to be executed. These newly completed forms were reviewed by CIS staff. CIS intends to conduct these internal audits every month.

II. Mandatory Training

A key component of this plan involves developing and implementing a comprehensive and high-quality training program targeted at all departmental personnel around the University having I-9 duties. CIS plans to hold a series of classes designed to certify the competence of staff with I-9 duties. Attendance would be mandatory and those not attending could have their system access suspended pending satisfactory completion of the class. In addition, an on-line version of the class will be prepared and made available in the Integrated System via Employee Self-Service. This material will serve as a reference guide but may also be used to provide the mandatory training.

III. INSZoom

The third "leg" of this I-9 Compliance Action Plan involves planning for the acquisition of a technical solution that would make the I-9 process more efficient at both the departmental and central UHR/CIS ends, and would substantially boost compliance rates. CIS reviewed five different immigration software packages and concluded that INSZoom is the best product for the University's needs.

IV. I-9 Compliance Responsibilities: departments versus central function

Departments have historically completed forms for faculty and wage hires while central Human Resources has taken responsibility for staff employees, in most cases at new employee orientation. CIS has worked with a group of HR Liaisons to consider the issue and the group has concluded that having all I-9s (faculty, wage and staff) completed in the departments makes more sense. This decision is also consistent with best practices at peer institutions like Virginia Tech and others, and was agreed on with assurances from CIS of improved and increased training and guidance from central HR.

(3) APA Finding: Return Title IV Funds Timely

The University's Student Financial Services Division performed the calculation for Title IV refunds accurately, but did not return federal funds to the federal Department of Education in a timely manner. Federal regulations require colleges to return unearned Title IV funds as soon as

possible to the federal Department of Education, but no later than 45 days after the college determined the student withdrew.

During our review of twenty students, we found Student Financial Services had returned funds for three students 76 to 95 days after the student's withdrawal from classes. We also noted Student Financial Services had not performed the Title IV calculation for three students within 45 days of the student's withdrawal, however there were no funds requiring return.

We recommend that the University enhance existing internal controls in the Student Information System to ensure that Student Financial Services properly identifies all students who officially withdraw and return of all Title IV funds to the Department of Education within the specified guidelines.

University of Virginia Management Response:

The University concurs with these findings. Corrective action has already been implemented.

Student Financial Services determined that a computer program designed to capture student withdrawals did not pick up withdrawal transactions with certain retroactive dates. The program has been corrected to select all withdrawals regardless of retroactive effective dates. SFS has also strengthened internal controls in its refund processes.

Student Financial Services has strong, existing internal controls in place to ensure that excess cash, as defined by federal regulations, does not occur for its Pell Grant and Supplemental Educational Opportunity Grant programs. These programs were not at issue in the APA audit.

The affected programs were the federal Stafford Subsidized, Unsubsidized, and PLUS loans, which are funded by private lenders chosen by the students. Although there was no excess cash involved, the University did not return this Title IV administered aid within the appropriate timeframe for these loans. By adjusting the computer program and refund process, the University will return Title IV aid within the required timeframes.

Please contact me if additional information is needed. On behalf of the University of Virginia, please extend my appreciation to all of your staff for their professional audit work and recommendations.

Sincerely,



Yoke San Reynolds
Vice President and Chief Financial Officer

UNIVERSITY OF VIRGINIA
Charlottesville, Virginia

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